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RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 002770

SIPDIS

STATE PASS TO SCA/P KATE BATEMAN, USAID PASS TO ALONSO
FULGHAM

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TAGS: [EAID](#) [EINV](#) [ENRG](#) [ETRD](#) [PREL](#) [PGOV](#) [CH](#) [PK](#)

SUBJECT: CHINA/PAKISTAN: PAKISTANI OFFICIALS PRAISE PRC
AID MODEL, SEEK GREATER BILATERAL ENERGY AND TRADE
COOPERATION

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Classified By: Acting Economic Minister Counselor Robert W. Forden. Re
asons 1.4 (b, d)

¶1. (C) SUMMARY: China's model of economic assistance benefits Pakistan and generates goodwill for China, according to a Beijing-based Pakistani diplomat. He praised China's focus on "bricks and mortar" development and use of concessionary loans and criticized USAID and other donors' for wasting money on "soft development projects." He expressed Pakistan's preference for bilateral channels of assistance and questioned the need for China to coordinate with other donors. Our contact also downplayed President Hu's absence from the September 24 Friends of a Democratic Pakistan meeting in New York and touted the success of President Zardari's August visit to China. Separately, the Pakistani Minister of Commerce said Pakistan was urging China to invest more in its energy sector and boost cross-border trade. End Summary.

Pakistan Diplomat Sings Praises of PRC Aid and Investment

¶2. (C) China's focus on "bricks and mortar" development benefits Pakistan and generates goodwill for China, Pakistan Embassy Counsellor Shafqat Ali Khan told EmbOffs September

¶23. Khan praised China's model of economic assistance, arguing that China's investment in large-scale projects was highly visible and effective in creating jobs and promoting economic development. He contrasted China's approach to that of USAID and other Western donors, whose focus on "soft development" (training and capacity-building) had limited impact and low visibility. Khan said his work at the UN Development Program (UNDP) in Pakistan in 2005 convinced him of the ineffectiveness of such programs, citing a "wasteful" UNDP training seminar for 150 participants at a 5-star hotel that was thrown together at the last minute because UNDP had 2 million rupee of year-end funds that had to be spent.

¶13. (C) Khan downplayed concerns about Chinese assistance breeding corruption. He insisted that, "looking at the big picture," more Chinese aid actually reached its intended

target than USAID assistance, much of which was spent on expensive consultants and overhead costs. He said Pakistan appreciated China's approach to concessionary loans, by which China provides the loan and solicits Pakistan's views on how to use the funds. He cited the Karakorum highway project as an example of mutually-beneficial cooperation - China provided the concessionary loan, Pakistan identified the highway as a priority project, and Chinese firms received the contract to carry out the project with the help of Pakistani sub-contractors. Khan said the Chinese firms were the natural choice for the project, given their experience working in similar terrain and the relatively low cost of bringing the necessary equipment from Kashgar into Pakistan. Plus, China provided the loan for the project, Khan added.

A lone bright spot: USAID-funded Lahore University

14. (C) Khan praised USAID-funded construction of the Lahore University of Management Sciences (LUMS) in the 1980s as a highly-successful and visible example of U.S. support for Pakistan. He said many Pakistani officials and business leaders graduated from LUMS, which is staffed primarily by U.S.-educated Pakistani professors. Khan urged the United States to fund similar "physical development" projects that provide Pakistan with tangible and necessary infrastructure.

Not Pressing PRC to Coordinate with Other Donors

15. (C) Pakistan did not have any interest in encouraging China to coordinate its bilateral assistance to Pakistan with the United States or the international community, according to Khan. "Why would we do that?" Khan asked rhetorically

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while underscoring China and Pakistan's preference for bilateral channels of assistance. He downplayed the possibility of China and the international community funding an identical project and stated that, even in the hypothetical case of a redundancy in Chinese and international community assistance programs, Pakistan would prefer to de-conflict the projects at the operational level rather than the diplomatic or political level.

Unconcerned By PRC Level of Participation in FoDP

16. (C) Khan stated that China did not need to dilute its already strong bilateral relationship with Pakistan by sending its President to participate in the September 24 Friends of Democratic Pakistan (FoDP) Summit in New York. Khan described the FoDP as important but still "fledgling" and asserted that it was appropriate for China's PermRep to the United Nations to represent China at the event, much as the PRC Ambassadors to Japan and Turkey had represented China at the April Tokyo Donors Conference and the August FoDP Summit, respectively. Pakistan-China relations were strong, Khan emphasized, adding that nothing should be read into President Hu's decision not to participate in the Summit.

President Zardari's August 21-25 Visit

17. (C) Khan characterized President Zardari's August 21-25 visit to Guangzhou and Hangzhou as a success, commenting that Zardari's frequent travel to China had focused the bureaucracy in Beijing and Islamabad on China-Pakistan relations. Khan said President Zardari's visit centered on fisheries, sugar cultivation and water purification, issues that were atypical of normal state visits but ones that affected Pakistan citizens' livelihoods. President Zardari would return to China again in the next two to three months, consistent with his pledge to visit China on a quarterly basis.

18. (C) China and Pakistan's recent signing of a Memorandum of Understanding for construction of a USD 6-8 billion dam and hydroelectric station at Bunji in northern Pakistan was a sign of growing bilateral cooperation on energy issues, Pakistani Minister of Commerce Makhdoom Amin Fahim told EconOff September 2 on the sidelines of the Urumqi Foreign Economic Relations and Trade Fair. Fahim said Pakistan was also pushing China to invest in another large hydroelectric project in northern Pakistan. Regarding assistance, Fahim said China and Pakistan were still negotiating over how to use the USD 500 million of assistance that China pledged at the April donors conference in Tokyo. (Note: This USD 500 million sum had been announced months before Tokyo and was subsequently re-packaged for the conference. End note.) He said Pakistan's priorities for the assistance were energy, counterterrorism and hydro-electric power. Pakistan Embassy Commercial and Economic Counselor Naeem Khan, who was also attending the Urumqi trade fair, told EconOff that Pakistan hoped to establish a Special Economic Zone (SEZ) on its border with China to boost cross-border trade, which currently accounts for only five percent of bilateral trade. Khan cited China's concerns about security and Pakistan's excess capacity for China's decision to temporarily stop construction of the oil refinery project at the port of Gwadar on the Arabian Sea. He insisted the project was not dead, commenting that construction would resume once security improved.

Comment

19. The views of these Pakistani officials not only

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underscore the close bilateral relationship that China and Pakistan enjoy, but also highlight Pakistan itself as a potential obstacle to U.S. efforts to better coordinate with China on aid to Pakistan. The Pakistani officials with whom we spoke dismissed the prospect of Pakistan encouraging China to coordinate its assistance with the United States and suggested that such a recommendation would potentially undermine Pakistan's strong bilateral channel with China without offering comparable benefit to Pakistan. At the same time, the Pakistani officials all agreed that the United States and China shared common interests in stability and economic development in Pakistan, a point that the United States should continue to stress in our efforts to engage the Chinese.

HUNTSMAN